



Office of the Under Secretary of Defense (Comptroller)

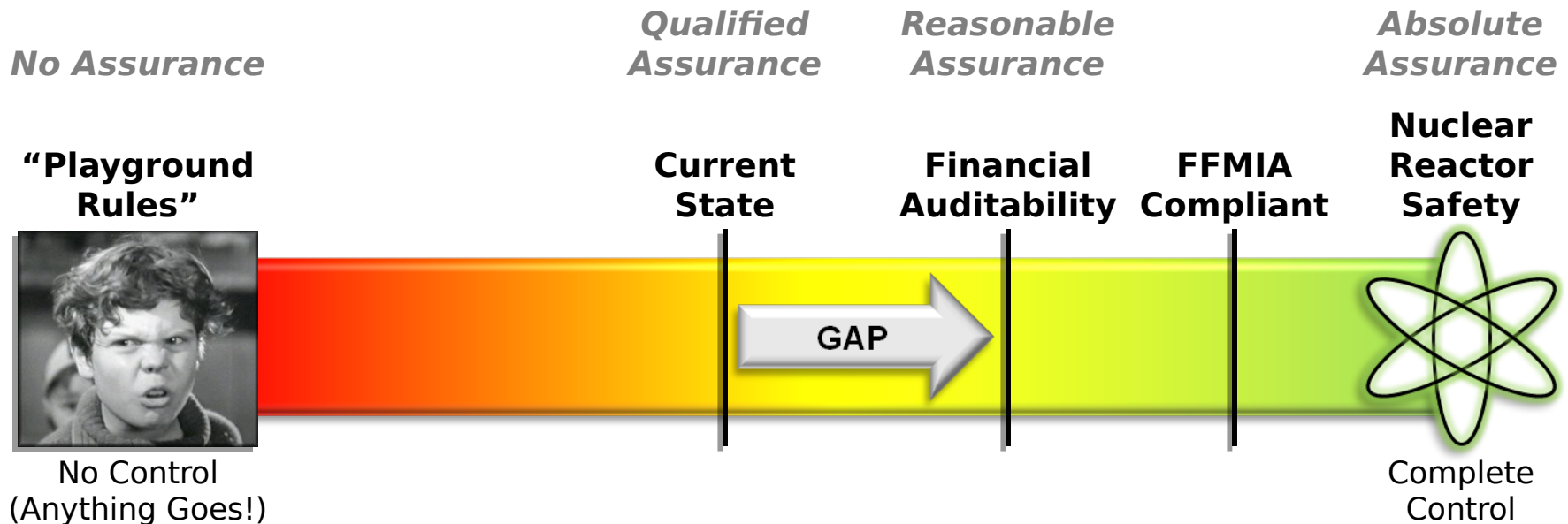
Financial Improvement and Audit Readiness (FIAR)

**Briefing for Joint Physical Inventory Working Group
September 28, 2010**

Existence and Completeness of Inventory and Operating Materials and Supplies (OM&S)

- Control continuum
- The FIAR initiative
- Why it is important
- Existence and completeness overview
- DoD challenges
- Factors for success
- Current schedule
- Achieving success

DoD Business “Control Continuum”



“Closing the Gap” Will Mean:

- More standard processes
- Implementing more capable systems
- Controls that are in place and tested

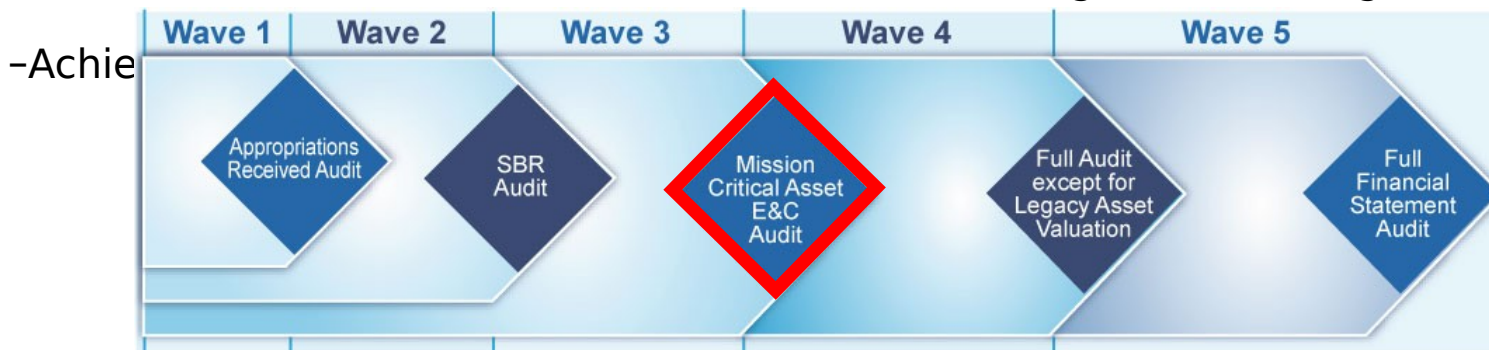
“Closing the Gap” Represents Opportunities for:

- Improved operational efficiency
- Reduced vulnerability to fraud/waste
- Sustained public trust/confidence

Goal is to Improve the Quality of Information Used for Decision

The FIAR Initiative

- **Per the USD(C) Memorandum (8/11/2009):** *“The Chief Financial Officers (CFO) Act of 1990 requires auditable financial statements. The first and most important step is improving information useful for managers.”* Robert F. Hale
- **Per the AT&L Memorandum (11/2/2009):** *“I endorse and support the USD(C) priority to validate the existence and completeness of mission-critical assets on the path to complete financial statement audit readiness.”* Ashton B. Carter
- **USD(C) Financial Improvement Objectives:**
 - Focus on financial information most useful for managers and warfighters



Why It Is Important

- **Improve Mission Support:**
Provide better information for timely, informed decision-making
 - For mission critical assets, a management priority is knowing what assets are available and where they are located
- **Comply with Laws:**
Laws require financial statement audits and asset accountability
- **Verify Correct Allocation of Funds:**
Verify that all resources are allocated to approved mission priorities in a legal manner
- **Increase Public Trust:**
Reassure the public and Congress that DoD is a good steward
 - Especially critical during the current budget environment

Existence and Completeness Overview

- **Each Component's management will be asserting to the existence and completeness of its inventory and OM&S**
 - **Existence of Inventory and OM&S**
 - What is reported actually exists
 - **Completeness of Inventory and OM&S**
 - All Inventory and OM&S that is owned and exists are accurately reported according to Federal accounting standards
 - **Documentation is available that supports the assertions**

DoD Challenges

- **Current business environment makes auditability hard to achieve**
 - DoD systems are not integrated
 - Systems do not collect data at transaction level
 - Business processes don't lead to auditability
 - Financial management and reporting for inventory and OM&S depends on data from operations
- **Many diverse functional organizations must work together**
 - Not just a Comptroller issue
- **We are still learning financial audit requirements**
- **Earlier focus was on information of limited value to management**

DoD Financial Audit Progress

Key Success Factors

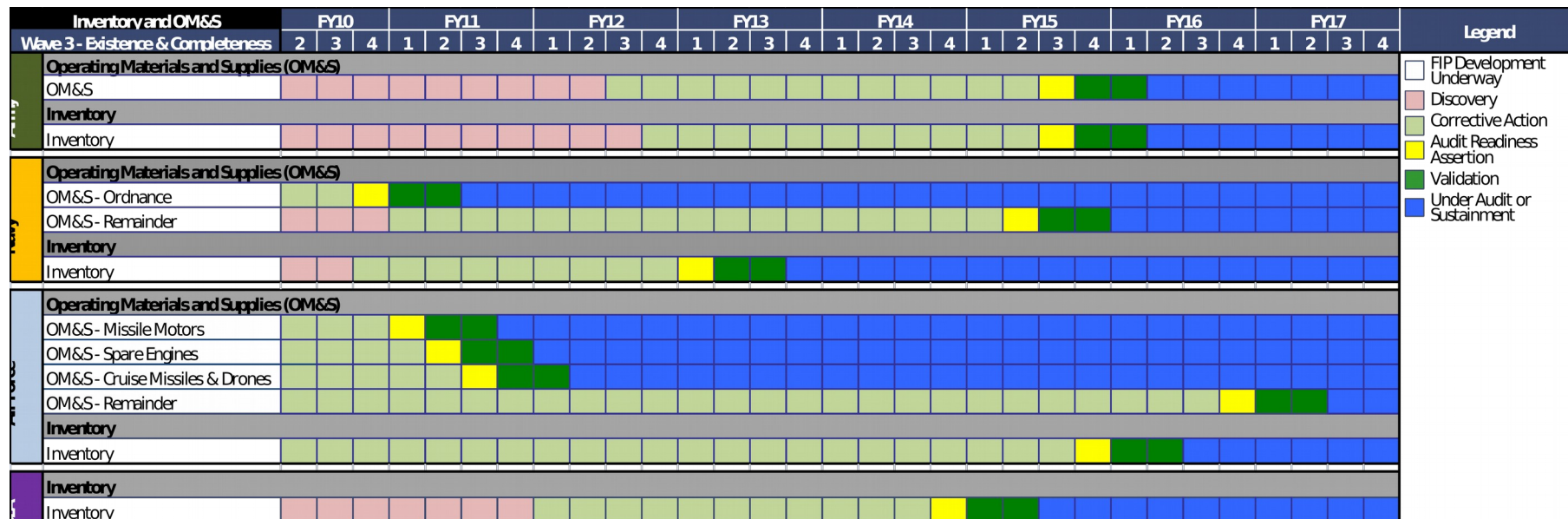
Factor

- 1. Leadership accountability for improved, disciplined business operations**
- 2. Well-documented, well-controlled business processes; business events are recorded in ledgers accurately**
- 3. Current, integrated, and compliant business systems**

Proposed Solution

- Incorporate in performance appraisals; provide positive incentives**
- Deploy trained service audit agency personnel to implement, test, and institutionalize controls**
- Implement and integrate currently planned ERPs**

Current E&C Schedules



Additional Resources:

- May 2010 FIAR Status Report: http://comptroller.defense.gov/fiar/documents/FIAR_Plan_May_2010.pdf
- 2010 FIAR Guidance Document: http://comptroller.defense.gov/FIAR/documents/FIAR_Guidance_2010.pdf
- Federal Accounting Standards for Inventory and OM&S: <http://www.fasab.gov/pdffiles/sffas-3.pdf>
- DoD Accounting Regulations for Inventory and OM&S: http://comptroller.defense.gov/fmr/04/04_04.pdf

Achieving Success

- **We now have a coordinated, focused approach to FIAR**
 - Focus on data we use to manage
- **Audit readiness demands enterprise commitment**
 - Business environment must change
 - Need Service/Agency help
- **Why will we be more successful this time?**
 - Focused approach and demonstrated value yield management buy-in
 - Most resources programmed
 - Long-term and interim goals established
 - Governance structure in place
 - Target ERP systems implementations are underway

We Are Committed to Making Progress